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## United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP  
WASHINGTON, DC 20510-6350

February 16, 2006

The Honorable Hector V. Barreto  
Administrator  
U.S. Small Business Administration  
409 3<sup>rd</sup> Street S.W.  
Washington, D.C. 20416

Dear Administrator Barreto:

There has been a consistent and significant decline in the number of Small Business Investment Company (SBIC) financings to minority and woman-owned firms, according to statistics compiled by the Small Business Administration's Investment Division. In April 2004, I contacted your office raising concerns about the continued decline of minority participation in the SBIC programs, and I am disappointed that the Agency has not made progress in addressing this trend. This is a serious problem, compounded by the lack of support and funding for the New Markets Venture Capital program under your leadership.

The need for SBA's small business venture capital programs is clear. According to a study conducted by the Ewing Marion Kauffman Foundation, less than 1 percent of the \$250 billion in venture capital dollars nationwide is made available to meet the needs of the country's 4.4 million minority business owners. Women-owned businesses are also severely under-represented in access to venture capital dollars. Although women own approximately 40 percent of all businesses in the U.S., they receive less than 5 percent of all venture capital investment.

It is because of this gap, and a general gap of equity investment in small business, that the SBA's venture capital programs exist. Unfortunately, the SBA does not seem to be investing in the firms most in need of venture capital dollars, minority and women-owned businesses. Evidence shows that financing of minority-owned venture capital firms reached a high point of 25.6 percent in 1998 and a steady decline in utilization during the tenure of the Bush Administration.

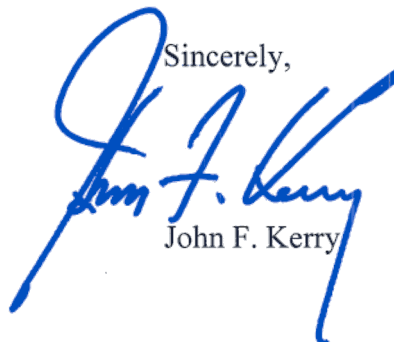
- In FY 2000, minority-owned firms received 20.4 percent of all SBIC program financings but only 4.1 percent of financing dollars. Women-owned businesses accounted for 5.9 percent of financings and only 1.9 percent of financing dollars.
- In FY 2001, minority-owned firms saw a significant reduction in their portion of SBIC financings to 11.9 percent and 3.3 percent of financing dollars. Women-owned businesses also saw a reduction to 4 percent of all financings and 1.4 percent of financing dollars.

- In FY 2002, minority-owned firms' share of the SBIC financings were further reduced to 10.2 percent and only received a dismal 4.3 percent of financing dollars. Women-owned businesses accounted for 2.6 percent of financings and only .8 percent of financing dollars.
- In FY 2003, minority-owned firms' share of the SBIC financings increased slightly to 13.9 percent and 5.9 percent of financing dollars. Women-owned businesses accounted for 3.1 percent of financings and 1.8 percent of financing dollars.
- In FY 2004, minority-owned firms share of the SBIC financings again declined to 10.6 percent and 5.2 percent of financing dollars. Women-owned businesses accounted for 3 percent of financings and saw an increase to 2.2 percent of financing dollars.

As the Ranking Member of the Senate Committee on Small Business and Entrepreneurship, pursuant to section 10 of the Small Business Act, 15 U.S.C. 639, I request the following information be submitted to the Senate Committee on Small Business and Entrepreneurship by Wednesday, March 1, 2006:

- 1) How does the SBA plan to increase SBIC financings in women-owned and minority-owned firms?
- 2) The study released by the Kauffman Foundation also found that investment firms owned or managed by minorities or women are more likely to invest in businesses owned by minorities and women. How does the SBA plan to expand the participation of SBICs owned or managed by women or minorities?
- 3) Please provide the breakdown of licenses to women and minorities from 1998 to the present.
- 4) Please provide a similar demographic breakdown for licensees and financings in the New Markets Venture Capital program since its inception.

If you have any questions regarding this request, please contact me or have a member of your staff contact my Small Business and Entrepreneurship Committee staff at (202) 224-8496. Thank you for your prompt assistance on this important issue.

Sincerely,  
  
 John F. Kerry